

WELCOME  
to

**“Utilizing Recovery Zone  
Economic Development Bonds”**

10AM ~ Thursday, November 19, 2009



[www.ibank.ca.gov](http://www.ibank.ca.gov)

# Utilizing Recovery Zone Economic Development Bonds

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# Utilizing Recovery Zone Economic Development Bonds

## What is the I-Bank?

The California Infrastructure and Economic Development Bank (I-Bank) is the State's only general purpose financing authority with broad statutory powers to

- issue revenue bonds
- make loans
- provide credit enhancements

for a wide variety of public infrastructure and economic development projects.



# Utilizing Recovery Zone Economic Development Bonds

**The American Recovery and Reinvestment Act** (ARRA) creates several exciting new innovative public finance tools for local governments.

Use of “Recovery Zone Economic Development Bonds” is one tool generating interest

Key Points:

- Requires local governments to designate “recovery zones” prior to issuing bonds
- Bonds must be issued by the end of 2010



# Utilizing Recovery Zone Economic Development Bonds

## Recovery Zones:

- Local designation
- Distress indicators
- Local governments will have wide latitude in designation by devising locally-determined zones

<http://www.irs.gov/taxexemptbond/index.html>



# Utilizing Recovery Zone Economic Development Bonds

## Recovery Zone “Economic Development Bonds”

### Eligible Projects:

- Must be located in a “Recovery Zone” and promote economic activity
- Infrastructure & public buildings
- Job training
- Education
- New money - no refinancing of current debt (with limited exceptions)



# Utilizing Recovery Zone Economic Development Bonds

## CA Debt Limit Allocation Committee Role: Allocation Overview

- Policy
- Timing & Deadlines
- Criteria & Priorities

<http://treasurer.ca.gov/cdlac/>

[http://www.treasurer.ca.gov/cdlac/procedures/20091120.pdf.](http://www.treasurer.ca.gov/cdlac/procedures/20091120.pdf)



# Utilizing Recovery Zone Economic Development Bonds

## Recovery Zone “Economic Development Bonds”

- California has received \$806,225,000
- The average allocation is approximately \$6 million with most jurisdictions receiving between \$1million and \$3 million;
- Jurisdictions can waive all or part of their allocation so that it can be used elsewhere in the state





# Utilizing Recovery Zone Economic Development Bonds

## Features and Benefits

- Bonds are sold as “taxable” bonds
- 45% of interest payment comes back to jurisdiction as a cash rebate
- Opens markets to investors that don’t normally buy tax-exempt bonds (pension funds, foundations and corporations)



# Utilizing Recovery Zone Economic Development Bonds

## Features and Benefits

- Total interest cost could be lower than traditional tax-exempt financing
- Larger investor market for taxable bonds could make them easier to sell
- Taxable market prefers very large issues (\$100-\$200 million in size)
- Deal structure may be slightly different than traditional tax-exempt structure



# Utilizing Recovery Zone Economic Development Bonds

## Why Consider a pool?

- Transaction costs are spread among participants
- Delivers project funds quickly by accessing an already-assembled, experienced bond team
- Economies of scale lower overall administrative costs to participants
- Possible savings through cost effective credit enhancement



# Utilizing Recovery Zone Economic Development Bonds

## Additional considerations

- Increased marketability and market demand
- Taxable bonds are attracting new classes of bond buyers to the bond market
- Investors are looking for “size” – Pools address sizing requirement
- Larger size equates to more liquidity in secondary market

# Utilizing Recovery Zone Economic Development Bonds

## The I-Bank Advantage

- ✓ Track record of broad range of successful bond issuance
- ✓ Ability to assemble an expert team that works for you
- ✓ Recognized name in the market place
- ✓ Specialists in local infrastructure financing



# Utilizing Recovery Zone Economic Development Bonds

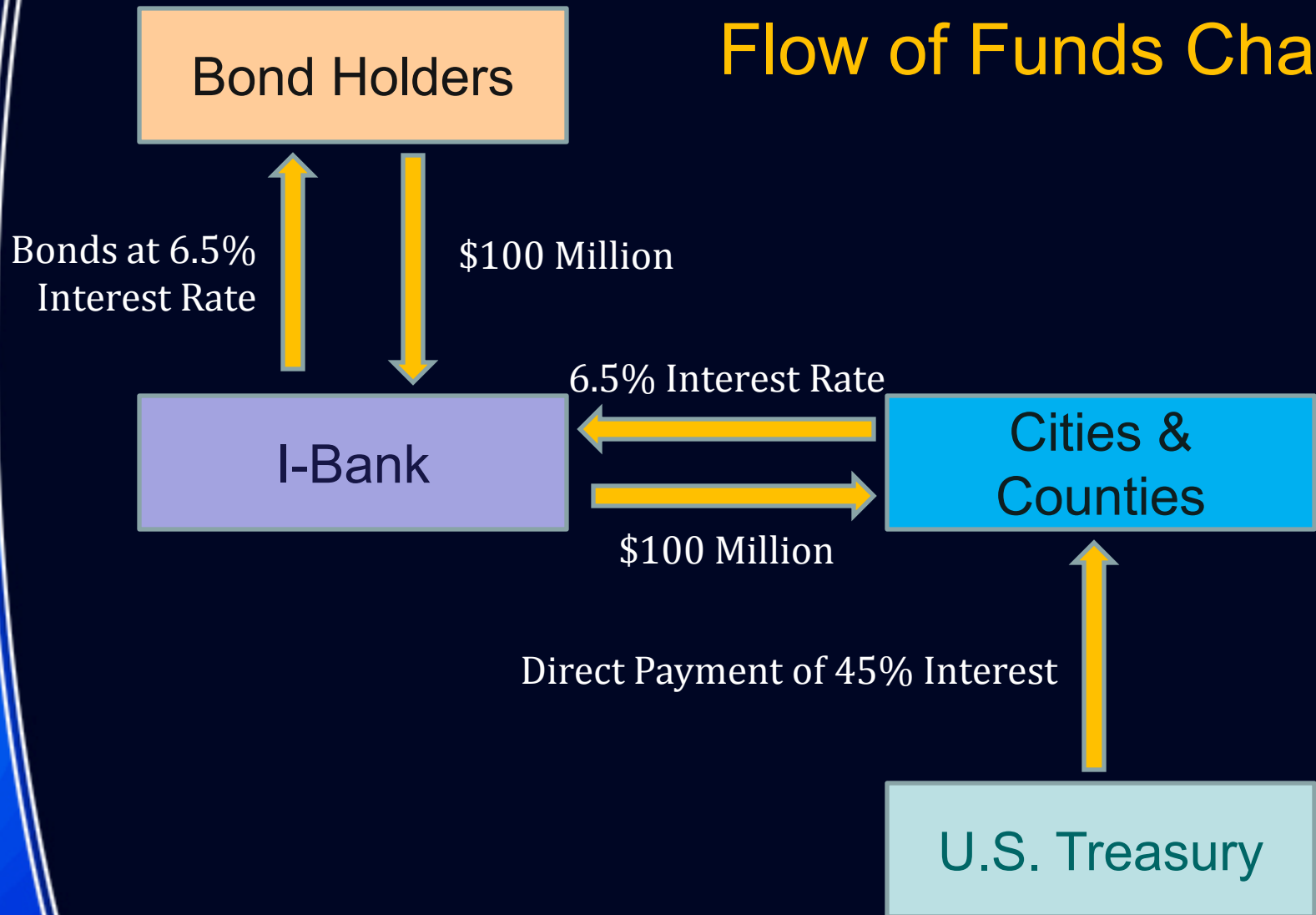
## How Does It Work?

- Cities and counties determine their allocation
- Designate Recovery Zone
- Identify eligible project
- Determination of Repayment Source such as
  - Revenue Pledge
  - Tax Increment
  - General Fund
  - Mello Roos / Special Tax Pledge
  - Special Assessment Pledge



# Utilizing Recovery Zone Economic Development Bonds

## Flow of Funds Chart



# Utilizing Recovery Zone Economic Development Bonds

**RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS**  
Estimated Cost Comparisons for Stand Alone Issue vs. Pooled Issue

	Stand Alone Costs		Pooled Issuance <sup>1</sup> Participant Costs		Estimated Savings
Par Amount:	\$2.5 million		\$2.5 million		20 borrowers benefit from shared transaction costs and economy of scale
Interest Rate <sup>2</sup>	7.50% market rate 4.13% fed subsidy		7.25% market rate 3.99% fed subsidy		Equal based on similar ratings
Reserve: (Average Annual D/S)	\$245,281		\$240,585		\$4,696 lower Average Annual D/S

Cost of Issuance	Dollars	\$/ \$1,000 bond	Dollars	\$/ \$1,000 bond	
Bond Counsel:	\$45,000	\$18.00	\$20,000	\$8.00	56% savings
Underwriter's Takedown:	\$37,500	15.00	\$18,750	7.50	50% savings
Underwriter's Counsel	\$35,000	14.00	\$10,000	4.00	71% savings
Trustee:	\$750	0.30	\$800	0.32	A small increase
Rating:	\$6,000	1.40	\$4,000	1.60	33% savings
Issuer Fee	\$12,500	5.00	\$8,000	3.20	36% savings
FA Fee	\$35,000	14.00	\$10,000	4.00	71% savings
Total COI:	\$171,750 6.87%	\$68.70	\$71,550 2.86%	\$28.62	58% savings to Total Transaction Cost
Required Borrower Contribution:	\$121,750	\$48.70	\$21,550	\$8.62	\$100,200 savings

Net Proceeds <sup>4</sup> :	\$2,325,281		\$2,428,335		\$103,054 additional Net Proceeds
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1. Assumes a total pool amount of \$50,000,000 with 20 borrowers.
2. Estimate as of November 18, 2009 for "A" rated issue. These are estimates based on current information. Actual fees could vary.
3. It is unknown at this time if credit enhancement will be required. Estimates range from 1.75% for pool participants to 2% for standalone issuances.
4. Net after deducting Cost of Issuance. DSR Included in Net Proceeds.



# Utilizing Recovery Zone Economic Development Bonds

## How Does It Work?

I-Bank has assembled a bond team to help structure the transaction, screen for eligible uses, evaluate repayment strength, assess readiness, determine appropriate credit enhancement, prepare bond documents)

I-Bank issues one large pooled issue on behalf of the participants



# Utilizing Recovery Zone Economic Development Bonds

## Sample Timeline

Summer 2009	Indications of preliminary interest I-Bank RFQ to assemble finance team
Fall	Assemble pool participants Review for eligibility
Fall 2009	Structure bond pool
Winter 2009/10	Initial bond issuance (other issuances anticipated)

# Utilizing Recovery Zone Economic Development Bonds

## Next Steps

The I-Bank would like to hear from you whether pooling Recovery Zone ED Projects into a large Bond Issuance would be of value to your jurisdiction.

Please email us at [ibank@ibank.ca.gov](mailto:ibank@ibank.ca.gov) to let us know of your interest, any project details, and MOST IMPORTANT send us:

- Contact Name
- Jurisdiction
- Phone Number
- Email



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